

WHAT THEY ARE SAYING: Administration's Plan Continues Cycle of Bailouts, Creates Implied Government Guarantees, Does Little To Streamline Regulation

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Wall Street Journal, Editorial: "Hope vs. Financial Experience ... The main idea behind the Obama Administration's new financial revamp is essentially this: With more power and a modest reshuffling of the bureaucratic furniture, the same regulators who missed the last credit mania will somehow prevent the next one. If nothing else, this concept is certainly true to President Obama's campaign theme of "hope."

Wall Street Journal, Wallison: "Too Big to Fail, or Succeed ... Although the president said in his speech that he supports free markets, these initiatives confirm that the administration fears the "creative destruction" that free markets produce, preferring stability over innovation, competition and change. ... Designating particular financial firms for this kind of special regulatory treatment clearly signals to the markets that these institutions are too big to fail. It will reduce the perceived risk of lending to them, enabling them to raise funds at lower cost than their smaller competitors. In other words, the administration's plan would create what are essentially government-sponsored enterprises like Fannie Mae and Freddie Mac in every sector of the financial economy -- insurers, securities firms, finance companies, bank holding companies, and hedge funds -- where these specially regulated firms are to be designated. The result will be devastating for competition. Larger firms will squeeze out smaller ones and aggressive small companies will have less opportunity to overcome the government-backed winners."

New York Times, Morgenson: "Too Big to Fail, or Too Big to Handle?... Talk is cheap, however. And the notion that the plan shows a new aversion to bailouts is not at all supported by its chapter and verse. In fact, there's precious little in the 88-page document about how the government will eliminate systemic risks posed by financial firms that aren't allowed to fail because they're simply too big or too interconnected to other important economic players here and abroad. Rather than propose ways to shrink these companies and the risks they pose, the Geithner plan argues instead for enhanced regulatory oversight of the behemoths. This suggests the taxpayer safety net will be larger after our national financial train wreck, not smaller."

Economist: "New foundation, walls intact... A much-trailed financial overhaul is a curious mix of audacity and timidity... A bigger concern is Mr Obama's failure to rationalise America's tangle of regulators. The Office of Thrift Supervision (OTS) will be subsumed into another agency, but that still leaves four federal bank regulators (plus state agencies), and these will have to work alongside the CFPB. "The alphabet soup has lost three letters and gained four," moans one consultant."

Economist: "Better broth, still too many cooks...Financial regulation in America has two problems: there is both too much of it and too little. Multiple federal agencies oversee the financial system: five for banks alone, and one each for securities, derivatives and the government-sponsored mortgage agencies. They share these duties with at least 50 state banking regulators and other state and federal consumer-protection agencies....Mr Obama's aides have concluded that a more ambitious overhaul of America's sprawling regulatory system would expend too much political capital with too little benefit. That bodes poorly for their willingness to face down special interests over the details of even this limited proposal. Who will have to hold more capital, and how much? Which firms will be designated as systemically important, and how will they pay for their implicit government backing? How to prevent banks shopping around for laxer rules abroad? Mr Obama's aides are famously fond of saying that crises create opportunities. But the best opportunity in years for a complete redesign of America's regulatory apparatus seems to be going to waste."

National Review Online: "White House: 'Too Big to Fail' Is Here to Stay... The report makes clear that Washington does not want to eradicate its "too big to fail" approach to financial firms, but instead wants to formalize and expand it.... This formalization of a lack of market discipline and consistency will overwhelm any of the reasonable regulations that the White House has suggested."

Financial Times, Clive Crook: "A thin outline of regulatory reform... The Obama administration's proposals for US financial regulation are pretty good, as far as they go. The problem is they do not go far enough. ...But the plan's comprehensiveness is a bit of an illusion. It ignores many issues, and has more loose ends and suggestions for further review than actual innovations. Also, as in other areas, the White House is unwilling to confront the political barriers to fuller reform. You can call this pragmatism, or you can call it timidity. A crisis of this order demands big new ideas, and the leadership to push them through. In finance, if not now, when?"

Wall Street Journal, Editorial: "A Triple-A Punt... If world-class lobbying could win a Stanley Cup, the credit-ratings caucus would be skating a victory lap this week. The Obama plan for financial re-regulation leaves unscathed this favored class of businesses whose fingerprints are all over the credit meltdown.... But inviting more firms to become members of this exclusive club isn't the answer. As long as government requires investors to pay for a service, and then selects which businesses may provide it, it's unlikely investors will get their money's worth. History says it's more likely that investors who use the agencies' "investment-grade" ratings as a guide will be exposed to severe losses -- ask people who went long on Enron and WorldCom."

New York Times: "If It's Too Big to Fail, Is It Too Big to Exist?... Nearly a century ago, the jurist Louis Brandeis railed against what he called the "curse of bigness." He warned that banks, railroads and steel companies had grown so huge that they were lording it over the nation's economic and political life. ... Today, amid the wreckage of the gravest financial crisis since the Great Depression, bigness is one of our biggest problems. Major banks, the Detroit automakers, the financial basket case that is the American International Group - the only reason these giant, sclerotic companies are still standing is that they have been deemed "too big to fail."

The Atlantic: "The financial blueprint...The administration's proposals embody a series of compromises, some more defensible than others--but at least (compare with health reform) the White House has worked out a careful, detailed plan and is making the case for it...That is a lot to be getting on with, but it is disappointing nonetheless that Obama has flinched from attempting a thorough overhaul of the regulatory structure. The multiplicity of overlapping regulators not only remains, it grows more complicated... A main reason for this timidity appears to be Congressional prerogatives--the unwillingness of various committees to surrender their oversight powers. This fracturing of supervision will put an enormous burden on the Treasury and its new oversight council. Next time, that is where the buck will stop."

NPR: "Obama's Plan Falls Flat With Many Economists... President Obama said he was looking for a "careful balance" when sketching his blueprint to stabilize the nation's financial sector and wring from the system the kind of risky practices that propelled the country into economic turmoil. But in seeking that balance - and bowing to political realities on Capitol Hill - the president may have boxed himself in with a mixed-bag proposal that has managed to disappoint economists and financial experts across the spectrum."

Christian Science Monitor: "What's missing from Obama's financial reforms...President Obama didn't go far enough with his proposals to rein in the financial excesses of both Wall Street and Main Street with new regulations. He also needs to put new curbs on another street: Pennsylvania Avenue. A prime cause for the housing bubble that led buyers, mortgage brokers, banks, hedge funds, and investors to lose their senses about risk - and bring the world economy to its knees - lies with Washington's housing policy, and the powerful industry lobbies that push it...Obama and Congress have yet to address the role of Fannie Mae and Freddie Mac, two giant government-sponsored enterprises that helped to provide cheap home loans, including subprime mortgages."

The American Prospect, Dean Baker: "Has Anyone Noticed the Housing Bubble?... The Obama administration's regulatory reform proposal includes many positive features, but it ultimately will not make the financial system safer for the simple reason that it conceals responsibility rather than holding regulators accountable for their failures. The basic story of this crisis was not that the regulatory authorities lacked the ability to rein in this disaster before it was too late. Rather, the basic story is that the regulatory authorities -- most importantly the Fed -- opted not to use their power to rein in the housing bubble."

The New Republic: "A Quickie Take on Obama's Financial Market Reform... I guess my biggest concern is that systemic risk just isn't nearly as easy to spot as it sounds in these discussions of a systemic risk regulator. We're now aware of the way derivatives contracts can link financial institutions together in a deadly chain, so that previously healthy institutions end up teetering when the company on the other end of a contract suddenly melts down. But the problem with financial markets is that the pace of innovation always outstrips our ability to understand the consequences. (Recall that derivatives were initially seen as a way to dampen risk in the financial system.) It's not at all clear to me that the systemic risk regulator will be able to pre-emptively identify future financial products that, when used in certain far-from-initially-obvious ways, lead to greater system-wide risk. Nor is it clear to me that, even if the regulator were able to identify these products and their uses, banks, hedge funds, etc. would listen. The very qualities that make the danger of a new financial product non-obvious (say, it appears to lower risk while doing the opposite) also make it extremely tough to persuade the users of that product to rein it in."

Library of Economics And Liberty: "What's Wrong with the Financial Regulation White Paper... Overall, the white paper offers a highly skewed narrative of the financial crisis. All of the misbehavior took place in the private sector. No mention is made of government policies that contributed. Instead, the story is one of government that needed a better regulatory structure and more powers. Intellectually, this is a very disappointing piece of work. But given political considerations, I cannot say that I am surprised."

Competitive Enterprise Institute, John Berlau: "Obama Overregulation Plan Won't Fix Financial Crisis... The Obama administration wants resolution authority to seize non-bank "financial institutions" that the government deems a systemic risk, similar to the government's current power to take over troubled banks. But this would give the government too much arbitrary power to confiscate what could be a broad array of businesses.... Moreover, giving resolution powers to an administrative agency, rather than a bankruptcy court, could lead to a politicized process. As in the Obama administration's bankruptcy reorganizations for Chrysler and General Motors, certain constituencies could be favored, while bondholders and secured lenders could see their contractual rights ripped apart. This could lead a greatly reduced investment in the American financial system. [If] President Obama wants to be the pragmatist he says he is, he would lessen burdensome and ineffective mandates such as Sarbanes-Oxley even at the same time he was tightening regulation over other entities such as credit default swaps. But the plan likely to be unveiled today is simply "more of the same" overregulation Americans experienced under the Bush administration."

Reuters, Felix Salmon: "Financial regulation: The alphabet soup gets much worse... Were you hoping that the present alphabet soup of regulators would get rationalized and downsized? I know that I was. But there's only one place that's going to happen: the OCC and the OTS are going to be folded into a new regulatory entity called the National Bank Supervisor (NBS), which (along with the Fed, natch) will oversee federally-chartered banks... The Obamacrats have also managed to sneak in legislation forcing opt-out, rather than opt-in, retirement plans for corporate employees. But there are weaknesses here, too, and not just at the org-chart level. Treasury has decided that no financial institution can be allowed to engage in any nonbanking activities at all - basically there's no way that Walmart, for instance, or Safeway, will ever get a banking license. That's bad for consumers.... But the main message of this white paper (and I'm sure Congress will do all manner of mischief to it before anything gets passed into law) is that there aren't any problems of

financial regulation which can't be solved by setting up a high-level committee. In other words, it's a bust."